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C O N F I D E N T I A L SECTION 01 OF 03 KUWAIT 000079

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SUBJECT: KUWAIT'S WITHERING BOURSE, POPULIST POLITICS

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Classified By: Econcouns Oliver John for reasons 1.4 (b) and (d)

[1](#)1. (C) Summary: Investor confidence in Kuwait has gone from bad to worse in recent weeks. Many Kuwaiti investors had expected a new year rally in stock prices -- instead, the Kuwait Stock Exchange (KSE) is down almost 20% since January [1](#)1. The GOK's efforts in late 2008 to stabilize the banking sector have failed to stem collapsing confidence in the economy's near-term and mid-term prospects. The GOK is coming under increasing heat to take drastic action, though most calls for reform focus on debt relief for Kuwaiti citizens rather than systemic improvements to Kuwait's economy. End Summary.

KSE: "ROUT-ING" START TO THE YEAR

[1](#)2. (C) During several meetings with senior bankers and investment managers in October-December 2008, Econoffs encountered cautious optimism regarding Kuwait's short-term economic fortunes, including the plight of the KSE, which fell 41.8% in CY 2008. For example, top executives at Noor Investment Company and KIPCO Kuwait Projects Company predicted a KSE rally in January. These and other interlocutors told Econoffs that a small fraction of the Kuwait Investment Authority's (KIA) wealth -- estimated at over a quarter of a trillion dollars in mid-2008 -- would be sufficient to stabilize the banking and investment sectors and restore market confidence. (Note: in November 2008, the Council of Ministers instructed the KIA to establish a USD 5.4 billion fund to "stabilize" the bourse and "support efforts to prevent a recession"; this fund allegedly commenced operations on December 24, but GOK officials have told us that the fund is not a stabilization fund per se, and any GOK intervention in the market has been limited (reftel A). End Note).

[1](#)3. (SBU) However, rather than a rally, the KSE -- the region's second largest bourse -- has experienced a rout in January, with the exchange down almost 20% since January 1. By comparison, Saudi Arabia's Tadawul All Share Index (the Middle East's largest bourse) is off 9.2% year-to-date, while the U.S. S&P 500 Index is down 7.9% year-to-date. Kuwaiti blue chip stocks have fared even worse than the overall market, with the KSE's ten largest companies (by market capitalization) off by an aggregate 22%. Even Kuwait's best performing large cap firm in 2009, National Investment Company, is down almost 11% year-to-date.

[1](#)4. (SBU) Kuwait's investment companies, which comprise approximately half of the firms listed on the KSE, have come under intense scrutiny in the past two months. Two of the largest Kuwaiti investment firms, Global Investment House and Investment Dar, face multi-billion dollar debt defaults, largely on account of the "credit crunch" which continues to

deprive such firms of fresh loans. Investor concerns about the health of these and other large investment companies is clearly contributing to the KSE,s woes. (Note: Global Investment House, which is also traded on the London Stock Exchange, has retained HSBC and Commercial Bank of Kuwait to explore options for refinancing its debts, while Investment Dar announced January 25 that it had hired Credit Suisse for the same purpose (reftel A). End Note).

CORPORATE BAILOUTS VERSUS DEBT RELIEF

15. (U) Recent media reports indicated that the GOK would announce a new economic stimulus package on January 26. However, in lieu of such an announcement, the Council of Ministers issued a brief statement, saying that it had reviewed measures to "safeguard financial institutions and strengthen financial and economic stability in the country" and that the measures will be studied by the Cabinet,s economic and legal committees. Press articles speculate that the plan comprises measures to use public funds to help troubled Kuwaiti companies pay off their local and foreign debt obligations and/or to buy such companies, assets with the goal of increasing cash flows. The Council of Ministers, economic and legal committees will reportedly review the measures on February 2, after which draft legislation will be sent to the National Assembly. The Finance Minister publicly denied January 27 that the Government is establishing a USD 17 billion bailout fund, as some newspapers reported.

16. (SBU) A chorus of MPs and columnists cite the KSE's dire

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performance as evidence of GOK mismanagement vis--vis the economy. Such critics are charging the Government with inaction, the GOK,s bank deposits guarantees and KIA-managed stock market fund notwithstanding. Most of these politicians and pundits are calling on the Government to directly assist Kuwaiti citizens, particularly with regards to their personal debts. MPs ranging from pro-Government Issam Al-Dabbous and Fahad Al-Mai to Islamist Dr. Dhaifallah Bou Ramya have called for measures that would de facto forgive citizens' debts, if not compel consumer banks to reschedule and/or restructure citizens' debt obligations. Another parliamentarian, Saadoun Al-Otaibi, announced January 27 that he had lined up 32 out of 50 MPs in support of a bill cancelling citizens' debt. These and other MPs and columnists also question the wisdom of "bailing out" Kuwait,s investment companies, which, they say, would only benefit a small number of wealthy businessmen. (Note: Some bankers have told Econoffs that some Kuwaitis were taking out personal loans with the intention of defaulting and receiving a Government bailout. End Note).

INFRASTRUCTURE INVESTMENTS AS STIMULI?

17. (SBU) In the past three months, GOK ministries have revised construction schedules for new public works projects (e.g., hospitals and a long-planned mass transit system for Kuwait City), in most cases announcing an extensive delay (usually one to two years) to such projects' initiation. Ministers and senior bureaucrats usually cite the economic slowdown and the drop in the price of oil -- and resulting budgetary pressures -- as reasons for the delays in these public works programs. However, entities ranging from the Council of Ministers' ad hoc task force on the financial crisis to the Kuwaiti Chamber of Commerce have recommended that the GOK consider large-scale infrastructure projects as possible stimuli for reinvigorating the faltering economy. Nevertheless, the GOK's new draft proposals reportedly make no mention of increased infrastructure investment and Post,s sources indicate that an increasing number of new public works projects are being put on hold.

GULF BANK RESCUE

18. (SBU) In a related development, Gulf Bank -- which was hit by approximately USD 1.3 billion of trading losses incurred by several clients in October 2008 (reftel B) -- announced January 26 that its USD 1.3 billion capital re-subscription was complete, with existing shareholders buying 68% of the new shares on offer and the KIA buying the remainder. As a result of this Central Bank-orchestrated recapitalization plan, Gulf Bank is now owned 16% by the GOK's KIA. (Note: Gulf Bank is the only Kuwaiti bank to require this kind of support from the GOK thus far. In comparison to the banking sectors in many OECD countries, the Kuwaiti banks have weathered the financial crisis relatively well so far. End Note).

POPULIST POLITICS AS USUAL

19. (C) Comment: With the KSE shedding billions of dollars of market value weekly, political and media attention is currently focused on the GOK's plans for shoring up investor confidence and preventing a major economic slowdown in Kuwait. Given longstanding executive-legislative branch tensions, it is not surprising that a good number of MPs are using the economy to attack the Government. True to form, most such parliamentarians opt for populist remedies rather than macro-level reforms to invigorate Kuwait's economic future. The call for debt relief for Kuwaiti citizens -- who already benefit from the largesse of what is probably the world's ultimate welfare state -- comes less than two years after the GOK approved a citizens, debt relief plan in 2007 that cost the state more than USD 1 billion. Given the predicted recessions facing many of the world's industrialized, and industrializing, nations, it is unclear what, if any, economic package the Government has. The Central Bank Governor has stated that his priority is to stabilize the banking sector, which has been achieved thus far (reftel C). It appears that the Central Bank is, for now, willing to let the situation with the troubled investment companies play itself out. While the body politic talks of a "stimulus" package, the GOK is thus far refraining from using large-scale infrastructure projects to stimulate economic activity (the chosen route of a growing number of OECD economies, including the U.S.) End Comment.

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JONES